



Operations Update

February 10, 2004

- 1. What progress has been made in implementing the new Department of Administrative Services (DAS) financing approach?** Greater customer control is a hallmark of entrepreneurial management, the new approach currently being implemented by the DAS. In financing terms, the new approach means that General Funds for infrastructure and facilities services used by state agencies will be appropriated to those "customer" agencies instead of to the service provider agency (DAS). Placing customer agencies in control of what they buy gives them an opportunity to better manage their operations expenses and should motivate DAS to improve its services to retain its customers.

The DAS goal is to have utility rates set well in advance to the agency budgeting period so that agencies can request funds needed to pay for the utilities they use. Here is the current transition plan designed to achieve that result:

- *During FY 2004*, DAS customers continue to pay for DAS products and services as they previously have, based on their utilization.
 - *During FY 2005*, most General Funds formerly appropriated to the DAS (approximately \$10,802,911) will be distributed directly to DAS customer agencies. DAS will then begin billing its customers for the services they receive, based on prior customer utilization of services. Thus, the DAS appropriation will be substantially reduced. (DAS will continue to request General Fund appropriations for DAS policy and regulation services categorized as "leadership.")
 - *In FY 2006*, the financing transition will continue as new expenses are categorized as utilities, and DAS distributes its appropriation to customer agencies cover to those expenses. For services deemed utilities in the previous fiscal year, DAS customers will be notified of the cost of what they expect to use, and will request appropriations to cover the cost of those services.
- 2. How are DAS rates set?** Rates for DAS utility services are set by Customer Councils comprised of customer agency representatives. To set Year 1 rates for FY 2005, which will be released later this week, each council has:
 1. Reviewed DAS definitions for leadership, utility or marketplace services and reviewed category assignments
 2. Analyzed relationships between the DAS services and customer agency use patterns.
 3. Studied direct and indirect costs incurred by DAS to provide the services. Payroll costs were projected at FY 2005 salary rates; non-payroll costs were projected at FY 2004 status quo budget rates.
 4. Developed a pricing and packaging approach that fit its services and customer agency use patterns.

Utility rates will be distributed and explained to customers with multiple feedback opportunities over the next few weeks, and will be final at the conclusion of a thirty-day comment period.

Rates for marketplace services (for which DAS customer agencies can choose any vendor) are set in a similar fashion, with the addition of a step that allows for consideration of “going rates” charged by other suppliers of similar services.

- 3. What is the General Fund budget for the DAS? What revolving funds are already set up for the DAS, and will additional revolving funds be approved?** The DAS General Fund budget for FY 2004 is \$17,466,746. DAS already has revolving funds for training, statewide purchasing, fleet, mail, information technology, federal surplus property, and printing. DAS will seek approval to open any new internal service funds from the Department of Management (DOM) and concurrence of the Auditor of State. The DAS will also notify appropriate bodies of the General Assembly per Code requirements.
- 4. Why does the DAS need "start-up" capital?** In FY 2005, DAS will complete the transition to a new financing system in which its customers pay for the services they use. At that time, DAS will distribute to its customers the General Fund monies historically appropriated to the DAS; therefore those funds will not be immediately available to pay DAS expenses. A “cash gap” is created because DAS enterprises typically collect for services after the service has been provided, 15 to 20 days after the close of a month’s business. To fill this gap, the DAS is requesting a one-time appropriation of \$1,950,000. This amount is equivalent to two months of working capital for DAS human resources, training, capitol complex maintenance, design and construction, mail, printing and purchasing services.
- 5. How will the "start-up" capital be used within DAS?** DAS will place the working capital in the appropriate enterprise internal service funds, using it to meet payroll and vendor obligations on a timely schedule. On an ongoing basis, each DAS enterprise will be expected to ensure that its fees cover the costs of the services provided. Thus, working capital placed in various internal service funds would remain intact at the end of each fiscal year. Funds will be needed as long as the current DAS billing approach is in place.
- 6. What is the status of centralized printing operations?** Revenues and expenses have not been aligned for the General Services Enterprise printing operation since well before the July 1, 2003, launch of the DAS. A thorough business evaluation is currently underway to determine the most viable solution to the revenue shortfall. Options include continued expense reduction, re-cultivation of former customers, and/or partnering with other printing enterprises. While the evaluation continues, layoffs were announced on January 23, 2004. More information will be provided to the General Assembly when the evaluation is completed.
- 7. How does DAS plan to handle the requirements of the new financing system, and how will ongoing communication be structured?** DAS understands that its customers are likely to have many questions during the transition process, and is working to accommodate customer needs as it merges the formerly separate accounting teams from the old departments into a single finance unit. DAS is currently setting up a customer-focused system for responding to customer billing questions, and will continue to identify and prioritize opportunities for improvement. Questions about DAS finances should be directed to Denise Sturm at 725-4703 or 281-6703.